

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
TWENTYNINE PALMS PUBLIC
CEMETERY DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 15, 2004

**County of San Bernardino
Twentynine Palms Public Cemetery District**

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County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

October 15, 2004

Sandra J. Gray, Chairwoman
Board of Trustees
Twentynine Palms Public Cemetery District
5350 Encelia Avenue
Twentynine Palms, CA 92277

**SUBJECT: AUDIT OF TWENTYNINE PALMS PUBLIC CEMETERY DISTRICT FOR
THE FISCAL YEAR ENDED JUNE 30, 2004**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Twentynine Palms Public Cemetery District for the fiscal year ended June 30, 2004.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the remaining aggregate fund information of the Twentynine Palms Public Cemetery District (District), an independent special district of the County of San Bernardino, California, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the remaining aggregate fund information of the District, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: 
Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

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**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Net Assets
June 30, 2004**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 478,588
Interest receivable	1,051
Taxes receivable	3,777
Accounts receivable	2,000
Prepaid expenses	4,796
Total current assets	<u>490,212</u>
Noncurrent assets:	
Capital assets:	
Land	23,797
Structures and improvements	317,759
Vehicles	67,838
Equipment	9,565
Less accumulated depreciation	<u>(281,622)</u>
Total noncurrent assets	<u>137,337</u>
Total assets	<u>\$ 627,549</u>
LIABILITIES	
Current liabilities:	
Salaries and benefits payable	<u>\$ 3,849</u>
Total current liabilities	<u>3,849</u>
Non-current liabilities	
Compensated absences	<u>5,810</u>
Total non-current liabilities	<u>5,810</u>
Total liabilities	<u>9,659</u>
NET ASSETS	
Invested in capital assets, net	137,337
Restricted for:	
Principal - nonexpendable	141,023
Interest - expendable	146,033
Unrestricted	<u>193,497</u>
Total net assets	<u>617,890</u>
Total liabilities and net assets	<u>\$ 627,549</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Statement of Activities
 For the Fiscal Year Ended June 30, 2004**

	<u>Governmental Activities</u>
EXPENSES:	
Salaries and Benefits	\$ 97,482
Services and Supplies	38,351
Depreciation	11,045
Other	<u>10,706</u>
Total program expenses	<u>157,584</u>
PROGRAM REVENUES:	
Charges for services	<u>31,555</u>
Net program expense	<u>126,029</u>
GENERAL REVENUES:	
Property taxes	106,843
Interest	12,515
Transfers	<u>13,419</u>
Total general revenues and transfers	<u>132,777</u>
Change in net assets	6,748
Net assets - beginning	<u>611,142</u>
Net assets - ending	<u><u>\$ 617,890</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Balance Sheet
June 30, 2004**

	General (MAV)	Permanent Fund Endowment Care (MBA)	Total Government Funds
ASSETS			
Cash and cash equivalents	\$ 191,762	\$ 286,826	\$ 478,588
Accounts receivable	2,000	-	2,000
Interest receivable	821	230	1,051
Taxes receivable	3,777	-	3,777
Prepaid expenses	4,796	-	4,796
Total assets	<u>\$ 203,156</u>	<u>\$ 287,056</u>	<u>\$ 490,212</u>
LIABILITIES			
Salaries and benefits payable	\$ 3,849	\$ -	\$ 3,849
Total liabilities	<u>3,849</u>	<u>-</u>	<u>3,849</u>
FUND BALANCES			
Reserved for:			
Principal - nonexpendable	-	141,023	141,023
Interest - expendable	-	146,033	146,033
Unreserved	<u>199,307</u>	<u>-</u>	<u>199,307</u>
Total fund balances	<u>199,307</u>	<u>287,056</u>	<u>486,363</u>
Total liabilities and fund balances	<u>\$ 203,156</u>	<u>\$ 287,056</u>	

Amounts reported for governmental activities in the statement of next assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	137,337
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	<u>(5,810)</u>
Net assets of governmental funds	<u>\$ 617,890</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Statement of Revenues,
 Expenditures, and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2004**

	<u>General (MAV)</u>	<u>Permanent Fund Endowment Care (MBA)</u>	<u>Total Government Funds</u>
REVENUES			
Charges for services	\$ 27,517	\$ 4,038	\$ 31,555
Property taxes	106,843	-	106,843
Interest	3,359	9,156	12,515
Total revenues	<u>137,719</u>	<u>13,194</u>	<u>150,913</u>
EXPENDITURES			
Salaries and benefits	91,672	-	91,672
Services and supplies	38,351	-	38,351
Total expenditures	<u>130,023</u>	<u>-</u>	<u>130,023</u>
Excess of revenues over (under) expenditures	<u>7,696</u>	<u>13,194</u>	<u>20,890</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	13,419	-	13,419
Other	-	(10,706)	(10,706)
Total other financing sources and uses	<u>13,419</u>	<u>(10,706)</u>	<u>2,713</u>
Net change in fund balances	21,115	2,488	23,603
Fund balances - beginning	<u>178,192</u>	<u>284,568</u>	<u>462,760</u>
Fund balances - ending	<u><u>\$ 199,307</u></u>	<u><u>\$ 287,056</u></u>	<u><u>\$ 486,363</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Government Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2004**

Net change in fund balances - Total Government Funds	\$ 23,603
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(11,045)
Compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	<u>(5,810)</u>
Change in net assets of governmental activities	<u>\$ 6,748</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private-Purpose Trust Fund Pre-Need Burial (MAY)
ASSETS	
Cash and cash equivalents	\$ 222,886
Accounts Receivable	7,157
Interest Receivable	901
Total assets	<u>\$ 230,944</u>
NET ASSETS	
Held in trust	<u>\$ 230,944</u>
Total net assets	<u>\$ 230,944</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Statement of Changes in Fiduciary Net Assets
 Fiduciary Funds
 For the Year Fiscal Ended June 30, 2004**

	Private- Purpose Trust Fund Pre-Need Burial (MAY)
ADDITIONS	
Contributions	\$ 21,394
Investment earnings - Interest	<u>3,971</u>
Total additions	<u>25,365</u>
DEDUCTIONS	
Transfers out	<u>13,419</u>
Total deductions	<u>13,419</u>
Change in net assets	11,946
Net assets - beginning	<u>218,998</u>
Net assets - ending	<u><u>\$ 230,944</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Twentynine Palms Public Cemetery District (District), created in 1934, is an independent special district located within the County of San Bernardino. The District was established to provide cemetery service to the community of Twentynine Palms, California.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity among governmental activities has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from any *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered

to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *permanent fund* labeled "Endowment Care" provides resources that are legally restricted to the extent that only earnings and no principal (corpus) may be used for purposes that support the reporting government's programs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**County of San Bernardino
Twenty-nine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Fiduciary funds are used to account for assets held by the District as an agent or trustee for individuals, private organizations, other governments and/or other funds. The Pre-Need Burial Fund is a private-purpose trust fund which transfers funds from its earnings to the General fund to finance burial expenditures. The modified accrual basis of accounting is used for the fiduciary fund.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities.

Investment activities are governed by the California Government Code Sections 53604, 53635, and 53638 and the County's Investment Policy. Authorized investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based on the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2004.

Receivables

Accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the

government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	15 – 45
Equipment and vehicles	6 – 20

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a noncurrent liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

**County of San Bernardino
Twenty-nine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Compensated absences activity for the year ended June 30, 2004 was as follows:

Beginning Balance	Additions	Deletion	Ending Balance
<u>\$ -</u>	<u>\$ 5,810</u>	<u>\$ -</u>	<u>\$ 5,810</u>

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The difference of \$11,045 relates to depreciation and the \$5,810 relates to compensated absences.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 – 29143 of the Government Code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Notes to the Financial Statements
 For the Fiscal Year Ended June 30, 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Amendments or transfers of appropriations between funds must be approved by the Board. Any deficiency of budgeted revenues and other financing resources over expenditures and other financing uses is financed by beginning available fund balances.

NOTE 2: CASH AND CASH EQUIVALENTS

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities as noted in Note 1.

A portion of the Endowment Care Fund is invested in U.S. Treasury Securities with a private broker. In accordance with GASB Statement No. 31, the District's investment is categorized to give an indication of the level of credit risk assumed by the District. The District's investments are categorized in the following manner:

Category 1 - Insured or registered, or security held by the District or its agent in the Districts' name.

	<u>Category 1</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 230,378	\$ 230,378

The District reports cash equivalents according to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The District's investments are reported at fair value, based upon reported closing sales prices. The District intends to hold investments until maturity. The value of the investments will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the investments will not vary significantly from the values described herein.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Notes to the Financial Statements
 For the Fiscal Year Ended June 30, 2004**

NOTE 3: CAPITAL ASSETS - Continued

year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2004 are as follows:

	Balance at July 1, 2003	Additions	Disposals	Balance at June 30, 2004
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 23,797	\$ -	\$ -	\$ 23,797
Total capital assets not being depreciated	23,797	-	-	23,797
Capital assets being depreciated:				
Structures and improvements	317,759	-	-	317,759
Vehicles	67,838	-	-	67,838
Equipment	9,565	-	-	9,565
Total capital assets being depreciated	395,162	-	-	395,162
Less: accumulated depreciation for:				
Structures and improvements	(229,467)	(6,729)	-	(236,196)
Vehicles	(31,836)	(4,025)	-	(35,861)
Equipment	(9,274)	(291)	-	(9,565)
Total accumulated depreciation	(270,577)	(11,045)	-	(281,622)
Total capital assets being depreciated, net	124,585	(11,045)	-	113,540
Total net capital assets	\$ 148,382	\$ (11,045)	\$ -	\$ 137,337

NOTE 4: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and any capital project funds. At June 30, 2004, the District made the following interfund transfers:

Fund	Purpose	Amount
MAV	From Preneed Fund to reimburse cost of funeral expenses	\$ 13,419
MAY	To General Fund to pay for funeral expenses	(13,419)
		<u>\$ -</u>

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Notes to the Financial Statements
 For the Fiscal Year Ended June 30, 2004**

NOTE 5: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2003-2004 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 6: NET ASSETS

The government-wide fund financial statements utilize a net assets presentation. Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contribution of capital. Net assets are classified in the following three components.

- *Invested in Capital Assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net asset consist of net assets of the District that are not restricted any project or other purpose.

The District's net assets for the year ended June 30, 2004 are as follows:

		Governmental Activities
Invested in capital assets		\$ 137,337
Restricted for:		
Nonexpendable - principal	\$ 141,023	
Expendable - interest	<u>146,033</u>	287,056
Unrestricted		<u>193,497</u>
Total net assets		<u>\$ 617,890</u>

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Notes to the Financial Statements
 For the Fiscal Year Ended June 30, 2004**

NOTE 7: INSURANCE

The District is insured with American Alternative Insurance Corporation for general liability, property damage, employee dishonesty, and automobile liability. Preferred Employers Insurance Company provides the District with worker's compensation insurance for all employees in extra or full time positions. Unemployment insurance is provided through the State of California's Employment Development Department.

The schedule of insurance coverage as of June 30, 2004 is as follows:

Type of Coverage	Limit of Insurance	Description
Bodily injury and property damage	\$1,000,000	Per occurrence
	\$3,000,000	Bodily injury and property damage aggregate
Personal injury and advertising injury	\$1,000,000	Per person or organization
	\$3,000,000	Personal injury and advertising injury aggregate
Employment-related practices injury	\$1,000,000	Per claim
	\$3,000,000	Employment-related practices injury aggregate, prior acts are not covered
Professional liability	\$1,000,000	Per claim
	\$3,000,000	Professional liability aggregate, prior acts are not covered
Wrongful acts	\$1,000,000	Per claim
	\$3,000,000	Wrongful acts aggregate, prior acts are not covered
Employment practices liability	\$1,000,000	Per person
	\$3,000,000	Employment practices aggregate, prior acts are not covered
Fire damage limit	\$1,000,000	Any one premises
Medical expense	\$ 10,000	Per accident
Nonmonetary liability	\$ 5,000	Per incident
Pre-termination counseling	\$ 2,500	Per incident
Employee dishonesty	\$ 250,000	Per occurrence
Forgery or alteration	\$ 250,000	Per occurrence
Theft, disappearance, & destruction	\$ 250,000	Per occurrence
Computer fraud	\$ 100,000	Per occurrence
<u>Automobile Coverage</u>		
Owned automobile liability	\$1,000,000	Combined single limit
Hired and nonowned liability	\$1,000,000	Per accident
Auto medical payments	\$ 10,000	Per accident
Uninsured motorist	\$1,000,000	Per accident
Comprehensive		Agreed value, actual cash value or cost of repairs whichever is less minus deductible
<u>Worker's Compensation Coverage</u>		
Bodily injury by accident	\$1,000,000	Each accident
Bodily injury by disease	\$1,000,000	Policy limit
	\$1,000,000	Each employee

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004**

NOTE 8: RETIREMENT

The Presidential Life Insurance Company carries the District's IRA retirement plan. Employees are eligible to participate in the plan at the end of the employee's probationary period. The District advances annual contributions to the IRA of \$2,000 per employee. The plan is 100% immediately vested. The employees reimburse the District for their share at 4% of their gross pay to the maximum allowable, repaid in 24 equal payroll deductions each year. The employees sign a Reimbursement Agreement which is kept in the District's Retirement file. Accordingly, if an employee terminates employment before reimbursing the District for their annual contribution, the balance due will be payable at that time. During fiscal year 2004, the District overpaid the employee's IRA retirement plan by \$2,000. This amount was recorded as receivable from employees at June 30, 2004.

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Required Supplementary Information
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2004**

<u>General</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1, 2003	\$ 178,192	\$ 178,192	\$ 178,192	\$ -
Resources (inflows):				
Property taxes	95,000	95,000	106,843	(11,843)
Interest	9,200	9,200	3,359	5,841
Transfers in	2,000	2,000	13,419	(11,419)
Charges for services	28,500	28,500	27,517	983
Other revenue	1,967	1,967	-	1,967
Amounts available for appropriations	<u>314,859</u>	<u>314,859</u>	<u>329,330</u>	<u>(14,471)</u>
Charges to appropriations (outflows):				
Salaries and benefits	100,675	104,688	91,672	7,206
Services and supplies	70,675	70,907	38,351	32,556
Capital outlay	90,708	90,708	-	90,708
Transfers out	2,000	2,000	-	2,000
General Reserve	5,000	5,000	-	5,000
Appropriation and Contingencies	<u>20,000</u>	<u>15,755</u>	<u>-</u>	<u>15,755</u>
Total charges to appropriations	<u>289,058</u>	<u>289,058</u>	<u>130,023</u>	<u>159,035</u>
Budgetary Fund Balance, June 30, 2004	<u>\$ 25,801</u>	<u>\$ 25,801</u>	<u>\$ 199,307</u>	<u>\$ (173,506)</u>

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

October 15, 2004

Sandra Gray, Chairwoman
Board of Trustees
Twentynine Palms Cemetery District
5350 Encelia Avenue
Twentynine Palms, CA 92277

**SUBJECT: MANAGEMENT LETTER - TWENTYNINE PALMS CEMETERY
DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

In compliance with Section 26909 of the California Government Code, we have audited the financial statements of the governmental activities and the remaining aggregate fund information of the Twentynine Palms Public Cemetery District for the fiscal year ended June 30, 2004. In planning and performing our audit of the financial statements of the District, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. However, we noted certain matters involving internal control and their operation, which are presented for your consideration.

We do not consider the matters to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matter that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have not considered internal controls since the date of our report.

These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies and are summarized as follows:

FINDINGS AND RECOMMENDATIONS

Finding One: Cash receipt controls could be improved.

The management of the District is responsible for establishing and maintaining the system of internal accounting control. Without an effective internal accounting control, the objectives and directives of management could not be properly carried out.

During our test work of cash receipts, we noted the following weaknesses in cash controls:

- The District does not have written policies and procedures over cash receipts.
- The District does not have a transaction review process in place.
- The District's daily and/or weekly collections were not deposited in a timely manner. For example, the October 2003 collections were not deposited until November 2003.
- The funds deposited in the clearing accounts were not transferred to the County Treasurer in a timely manner. The District averaged two months to transfer funds from the clearing accounts to the County Treasurer.
- Receipts issued by the District were difficult to trace to the deposit slips, bank statements and general ledger.
- The cash receipt log was not properly maintained. Voided receipts were not recorded in the log. We also noted that the receipt numbers were not sequential.
- Cash receipts were voided without all copies of the voided receipts on file.
- The secretary is authorized by the Board of Trustees to conduct banking transactions such as telephone transfers. However, the transfer transactions were not properly documented. In addition, we could not verify that the inter-bank telephone transfers were approved or ratified by the Board of Trustees.

The absence of policies and procedures and other receipting safeguards may result in unauthorized transactions going undetected, thus possibly compromising the District's assets.

Recommendations

Considering the size of the District, we recommend that the District's Board develop stringent cash receipting policies and procedures that ensure the District's assets safeguarded from misappropriation. The written policies should be communicated to all personnel including temporary or part-time staff. Policies should consider:

Finding One - Continued

- Performing periodic reviews of the cash receipts to make sure that transactions are accurately and properly recorded in the records.
- Depositing all collections with the District's financial institution in a timely manner to ensure that revenues are recognized in the proper period.
- Transferring deposits to the County Treasurer more frequently to maximize the District's interest earnings.
- Maintaining a cash receipts journal. The journal should include basic information such as:
 1. Receipt number. (Numbers must be sequential.)
 2. Payee name.
 3. Transaction date.
 4. Amount received.
 5. Method of payment. When a payment is received in more than one form staff should issue only one receipt for the total payment. Make a notation on the receipt indicating the different forms of payment and the corresponding amounts.
 6. Nature of monies collected. When a check, money order, or cash is received for multiple accounts, identify each account and the related amount on the receipt.
 7. Cashier and/or staff name
- Developing procedures for voiding cash receipts. Improperly prepared receipts must not be discarded. All copies of the voided receipts must be attached to the receipt book with the printed word "VOID" in large letters on the receipt. The person voiding the receipt must also initial the void receipt.
- Maintaining proper documentation for all transactions. Consider preparing a bank transfer log to monitor inter-bank transfers. All bank transactions must be ratified by the Board.

Finding Two: Fully paid Pre-Need Contracts were not tracked.

Good business practice requires that sufficient and relevant data should be recorded to provide an audit trail and to document evidence that a transaction took place.

Finding Two: - Continued

Based upon the test work performed and inquiry of District personnel, we noted that fully paid Pre-Need contracts were not tracked. The District's current practice is to simply file the contract once the contract is paid in full. This condition made it difficult for the auditor to trace and validate transactions.

Recommendations

Develop and maintain a listing of all existing Pre-need Contracts. Ensure that all contracts are assigned a reference number and the numbers must be sequential. In addition, establish a Board review procedure for all of the Districts' contracts on an ongoing basis.

Finding Three: There is no established fuel and travel policy.

Procedures should be written and documented so that any District staff or other persons who are performing District business or activities will understand their responsibilities and be accountable for their actions.

During our field work, we noted the following items:

- Several entries in the District's fuel log showed that an employee vehicle was receiving fuel from the District's fueling station. Based upon inquiry, the employee used their personal vehicle for District errands, business meetings and conferences.
- The District did not have formal procedures concerning the use of District's fuel.
- And, the District did not have a written travel and reimbursement policy.

Recommendations

Develop written policies and procedures for use of the District's fuel and travel reimbursement. Ensure that all personnel are aware of these policies.

Finding Four: Payroll oversight could be improved.

According to the District's policy manual, compensatory time is a special leave of absence with pay, which may be granted to authorized employees in lieu of overtime and must be used within six months without special Board action in each instance. The District defines authorized employees as "supervisors".

Finding Four: - Continued

During the performance of our audit, we noted the following items:

- All District employees were accruing compensatory time.
- Compensatory time was calculated at double time rate instead of the time and a half overtime rate described in Section 4(e) of the Districts' policy manual.
- The procedure followed by staff to calculate compensatory time is based on the instruction of the former District employee.
- The District did not have formal procedures for conducting periodic audits of payroll transactions.

Failure to periodically monitor payroll transactions could result in unauthorized transactions and increase the district's liability. As a result of the above transactions, it appears that the District has paid unauthorized compensatory times to employees for a number of years. The dollar value of this error could not be ascertained.

Recommendations

Immediately enforce the District's compensatory time policy. Ensure that all staff is aware of the policy. Implement procedures to monitor payroll activities and/or transactions on an ongoing basis.

Finding Five: Paid invoices were not cancelled upon payment.

Good business practice requires that all invoices or receipts be cancelled upon issuance of warrant or a check to avoid duplicate payments and unauthorized transaction.

During our review of expenditures, we noted that the Presidential Life Insurance invoice dated July 16, 2003 was presented three (3) times for payment. The invoice was not cancelled, dated, or stamped "PAID". As a result, the employee's retirement fund was overpaid by \$2,000 in fiscal year 2004.

Recommendations

Vendor invoices or receipts must be cancelled or stamped "PAID" and dated upon issuance of a warrant or a check to avoid duplicate payments and/or unauthorized transactions. Ensure that payment vouchers or request for payments are properly supported prior to payment approval. Require employees to reimburse the District for the overpayment.

Sandra Gray, Chairwoman
Twentynine Palms Cemetery District
October 15, 2004
Page 6

Overall Management's Response

The office clerk at Twentynine Palms Cemetery District has resigned and we are in the process of training a new employee. We are going to take steps to ensure that all of the findings and recommendations, stated above, are reviewed with the new employee. We are also going to work with the new employee to implement any changes that have been recommended.

We appreciate the courtesy extended to us during our audit. We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

December 8, 2004

Thomas Laurin, Director
Department of Economic and Community Development
Neighborhood Initiative Program
290 North 'D' Street, Sixth Floor
San Bernardino, CA 92415-0040

**SUBJECT: INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED
UPON AUDIT PROCEDURES FOR THE NEIGHBORHOOD INITIATIVE
PROGRAM.**

We have performed the procedures enumerated below, which were agreed to by the Department of Economic and Community Development and the Auditor/Controller, to verify supporting detail for the total program revenues and expenditures as reported in the Statement of Grant Revenues and Expenditures for the Neighborhood Initiative Program for the period June 1, 1999 to November 30, 2004. The internal controls are the responsibility of management. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and conclusions reached as a result of these procedures are identified below.

ENGAGEMENT OBJECTIVES

- Document and review specific program controls to determine the degree of reliance that can be placed on the controls and the extent to which any further auditing procedures are necessary.

- Review necessary program documentation.
- Test and evaluate a random sample of supporting transactions to ensure documentary evidence exists to support revenues and expenditures.
- Confirm information with third parties if necessary.
- Interview necessary personnel.
- Prepare a Statement of Grant Revenues and Expenditures and provide a written audit report to the Economic and Community Development Department.

SCOPE AND METHODOLOGY

Procedures performed were limited to the review of information and documentation relative to the engagement objectives mentioned above. It did not include work/details normally performed in an operational or financial statement type audit review.

Test of Internal Controls

- Completed internal control surveys and documented our understanding of the revenues, expenditures and flow of funds in the Neighborhood Initiative Program to determine the degree of reliance that can be placed on the internal controls.
- Interviewed employees and documented our understanding of the house acquisition and rehabilitative process.

Test of Transactions

- Randomly selected 69 transactions to determine that documentary evidence exists to support reported program revenues and expenditures.

As a result of the audit, we have identified two program control weaknesses, which are detailed in the Schedule of Findings and Recommendations on pages 3-4 of our report.

We are not engaged to, and did not conduct, an examination, the objective of which would be to express of an opinion on the accompanying Statement of Grant Revenues and Expenditures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Neighborhood Initiative Program and the management of the Economic and Community Development Department, and is not intended to be, and should not be, used by anyone other than these specified parties.

AudRpt/Thomas Laurin, Director
Department of Economic and Community Development
Neighborhood Initiative Program
December 8, 2004
Page -3-

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:


Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Finding 1: The Neighborhood Initiative Program's financial transactions were commingled with other Economic and Community Development Funds.

The Neighborhood Initiative Program (NIP) grant requires that the accounting records,

...“permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes”.

The NIP's revenues and expenditures are accounted for in a separate special revenue fund, SAR, to prevent commingling other transactions and to permit the tracking the program's revenues and expenditures. However, while auditing revenues and expenditures, numerous transactions were found that belonged to other funds and vice versa. For example, the details for the deposit of \$1,000,000 for *“Profits from the sale CDBG funded homes”* could not be traced into the SAR fund. It appeared that the profits were initially deposited into the CDBG Fund. Accordingly, commingling funds does not permit the clear “tracing of funds”, as required by the grant.

Recommendations

To stay in compliance with grant requirements, establish policies and procedures to ensure that restricted transactions are not commingled.

Auditee's Response

At the beginning of the NIP, CDBG funds were used for start up funding for the new grant program. At that time, CDBG funds were deposited directly into the NIP Fund (SAR) and were identified by specific GRC's. In 2001 the CDBG funds were transferred back to a CDBG Fund (SBT). Realizing the possible liability these transactions might subject the funds of this department too, the department instituted policies and procedures that prohibit the commingling of restricted transaction funds. In addition, since 2001 the department has increased the number of funds it uses to ensure the separation of restricted funds such as the NIP.

Finding 2: The Neighborhood Initiative Program's Sources and Uses of Funds Statement did not reconcile to the County's Financial Accounting System (FAS).

Financial transactions summarized in reports should reconcile to the accounting system. There were differences noted between the sources and uses of funds statement prepared internally and the FAS. Out of 13 line items tested, only two line items reconciled to the FAS.

Recommendations

To report accurate financial information, establish policies and procedures that ensure that financial transactions are reconciled to the FAS on a regular basis. During reconciliation: check for incorrect coding of GRC's, ensure that transactions were deposited or expensed in the correct fund, and check for other errors. Once reconciled, use the corrected FAS information for your financial reports.

Auditee's Response

Financial information is now tracked using the departmental tracking report that is now available to track NIP transactions. This data base is reconciled with FAS on a regular basis. Any transaction errors will be researched and corrected by the Fiscal Clerk II assigned to the NIP. Transaction corrections and deposit errors will be reviewed by the departments Administrative Unit Supervisor.

**DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
NEIGHBORHOOD INITIATIVE PROGRAM
STATEMENT OF GRANT REVENUES AND EXPENDITURES
FOR THE PERIOD JUNE 1, 1999 TO NOVEMBER 30, 2004**

Revenue

Neighborhood Initiative Program Grant	\$ 15,000,000
Loan from CDBG program	2,805,994
Sale of FHA properties	27,170,092
Interest	<u>1,208,978</u>
 Total revenue	 46,185,064

Expenditures

Repayment CDBG loan	3,000,000
Property purchase & maintenance	22,386,208
Costs to maintain San Bernardino houses	182,452
Amounts reimbursed to cities	6,127,850
Education & outreach	359,981
Costs for unmarketable properties	128,342
COWCAP	69,773
Administrative expenses	<u>2,669,163</u>
 Total expenditures	 <u>34,923,769</u>
 Excess of revenues received over expenditures	 <u><u>\$ 11,261,295</u></u>

The accompanying letter and findings are an integral part of this statement

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

December 22, 2004

Department of Finance
State of California
State Capital, Room 1145
Sacramento, CA 95814

**Subject: Auditor-Controller's Review of Calendar Year 2004
Property Tax Administration Program Grant Calculations**

We have reviewed Exhibit B to the 2004 Annual Report – AB589 State-County Property Tax Administration Grant Program Agreement Results to verify that the Assessor's calculations are arithmetically correct and that the performance results satisfy the requirements specified in Section 5 of the State/County Property Tax Administration Program Agreement.

Our review included those procedures we considered necessary under the circumstances to perform this verification. These procedures included a review of supporting documentation and interviews with Assessor management and staff. We also recomputed the Assessor's calculations of the amount of additional revenue received by schools.

Based on our review, we conclude that the Assessor's calculations are arithmetically correct and that the performance results satisfy the requirements specified in Section 5 of the State/County Property Tax Administration Program Agreement.

Sincerely

Larry Walker
Auditor/Controller-Recorder

By: Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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